

Budget 2024/25 and Updated Medium Term Financial Plan

Reason for this Report

1. To provide an opportunity for pre-decision scrutiny of the Council's preparations and timetable for delivering the Budget 2024/25. In addition, to consider an update on the Medium-Term Financial Plan, Capital Programme, the Council's financial resilience, and the proposed Income Generation Framework.

Structure of the Papers

2. To facilitate the scrutiny the following appendices are attached to this report:

Appendix A – Cabinet report – Budget 2024/25 and the Medium-Term Financial Plan: Update Report

Appended to the Cabinet report are:

Annex 1: Medium Term Financial Plan

Appendix 1: Budget Update Overview - Questions & Answers

Appendix 2: Income Generation Framework

Appendix 2a: *Income Summary Statement /template*

Appendix 3: Proposed Revenue Budget Timetable Framework 2024/25

Appendix 4: Finance Resilience Snapshot

3. In addition, the [Budget Outturn 2022/23](#) report agreed by Cabinet on 22 June 2023 has influenced budget preparations for 2023/24 and may be useful reference in Members preparations. Follow the highlighted link to access the full set of papers.

Background

4. Scrutiny of the Council's financial planning, policy, control and resilience falls within this Committee's Terms of Reference. The Committee also scrutinises

budget proposals annually and monitors financial performance throughout the year.

5. The Budget Update 2024/25 report attached at **Appendix A** will be considered by Cabinet at its meeting on 13 July 2023. The report sets out the Council's financial strategy and timetable for developing the 2024/25 Capital and Revenue budget proposals and provides an updated Medium Term Financial Plan (MTFP).

Context

6. The report outlines the internal and external environments within which the MTFP is under development. The organisational context is that this 2024/25 Budget will be developed alongside the updated Corporate Plan in readiness for approval of both in March 2024, and financial planning will continue to evolve alongside business case work on strategies, plans and initiatives.
7. The economic context is central to financial planning and the report fully addresses the implications of inflationary pressures (*points 12-28*). The Consumer Price Index (CPI) stands at 8.7% and whilst the headline CPI rate has fallen slightly, there is concern that inflation is still very high and price increases will remain a critical factor to keep under review in terms of budget planning.
8. Inflation will impact many areas of the Council's budget, as explained in the report: Goods and Commodities (*points 16-20*) including energy food and fuel; Workforce Costs (*points 21-25*); Commissioned Services (*point 26*); and Construction and Materials inflation (*points 27,28*).
9. Demand estimates have been included in the budget gap, but the report makes clear it will be critical to keep under review demand for Children's Services, Adult Social Care, Additional Learning Needs, and Homelessness.
10. A key element of budget planning is the funding and income that the Council can expect (*points 30-37*). This includes *non-hypothecated* funding and *specific grant* funding. The Local Government Settlement 2023/24 indicated an All-Wales

funding allocation of 3% for 2024/25 however the Council is not expecting the Provisional Local Government Settlement, a key date in the budget-setting process, before December 2023.

11. The MTFP is predicated on the assumption that a potentially significant Teachers Pensions pressure will be fully funded (*point 45*).
12. This report contains an Income Generation Framework (see **Appendix 2**). The Council generates income from sales, fees and charges and given the scale of the budget gap it will be important to maximise income streams where possible. The report indicates that the Council does not assume a blanket annual uplift to fees and charges in line with inflation. However, a clear rationale will be required where it is proposed to hold fees and charges static for 2024/25, or to increase them by less than the rate of inflation.
13. The Council finances its existing capital borrowing at fixed interest rates and the capital financing costs currently included in the 2024/25 Budget Gap and MTFP are based on the *existing* capital programme (*points 38-41*). However, given the Bank of England has increased interest rates to 5%, capital programme commitments, a future borrowing requirement linked to capital investment, are highlighted as a significant risk in increased capital financing costs well into the long term.
14. In respect of the outturn position for 2022/23, (follow this link for more detail [Budget Outturn 2022/23](#)), the Council achieved a balanced position despite a mixed picture across directorates. Additional pressures have continued in some directorates, and the 2024/25 Budget Gap has been updated to reflect these, most notably in relation to Children's Placements.

Budget Gap

15. The indicative budget gap for 2024/25 is **£36.760 million** and £119.205 million over the next 3 years (See **table at point 50 of Appendix A**).

16. In addition, budget planning will need to keep the following factors under close review:

- **Pay Award Uncertainty** - 2024/25 awards, as well as earlier awards that could have an ongoing impact into 2024/25 if higher than budgeted.
- **Real Living Wage** - the rate due to be implemented by May 2024.
- **Teachers Pensions** - the outcome of the actuarial review, its impact on employers' contributions and whether it will be fully funded.
- **Price inflation** - review of factors affecting key cost drivers, updated CPI forecasts and the impact of any contract renewals.
- **Cost of Care Exercise** - due in 2023/24 on the future cost of Older People Residential and Nursing placements
- **Capital Financing** – the impact of rolling forward the capital programme one year to 2024/25 – 2028/29.
- **Specific Grants** – the quantum of future grants relative to the existing cost base, together with any impact of the funding flexibility review.
- **Demand** – any emerging in-year pressures.
- **In year monitoring issues** - any cost pressures that emerge as part of the 2023/24 monitoring process.
- The ongoing **economic outlook**.
- The fact that there will be a **General Election** within the MTFP timeframe.
- **Council Tax Reform** - due to be introduced in 2025.
- Annual refresh of the **Corporate Plan**

17. *Points 53 – 55* set out the proposed model to achieve the savings required to close the budget gap. The model is framed around two assumptions;

- a Council Tax Increase of 3% generating **£5.172m**; and
- Directorate savings required of **£31.588m**.

Directorates have been asked to identify options for savings to support early 2024/25 budget strategy work.

18. As in previous years it is the Council's intention to consult with residents on what is important to them and their communities for the 2024/25 Budget, following the

receipt of the Provisional Local Government Settlement in January 2024 (**Appendix 3**). Simultaneously engagement will also take place with the third sector, Scrutiny Committees, Governance and Audit Committee, Schools and Trade Unions, and employees.

19. For quick reference, appended to the Cabinet report at **Appendix 3** is the proposed Budget Timetable Framework for 2024/25, and at **Appendix 1** a particularly informative easy-read question and answer summary.

Capital Investment Programme

20. *Points 68-79* detail matters relating to updating the Council's five-year rolling Capital Investment Programme approved in March 2023, a strategy aiming to meet the long-term challenges facing the city. The 2024/25 Budget Strategy will roll the programme forward a year, to cover 2028/29. Details of the Capital programme levels of expenditure can be found in a table at *point 68*.
21. The Capital investment programme is based on the Council's medium-term view of investment requirements and includes projects maintaining momentum in city regeneration, modernising school buildings, delivering a significant house building programme and approved priorities arising from Stronger, Fairer, Greener.
22. The report is very clear about the importance of Option Appraisal, Business Cases and Due Diligence stating that Cabinet approval of proportionate business cases for significant projects prior to full inclusion in the capital programme is an essential tool to ensure financial resilience and understanding of affordability and risk.
23. Members are particularly referred to *points 75- 83*. This section deals with the affordability of the Capital Programme and stresses the importance of the Annual Property Plan. The Council has two main resources that it can directly influence to fund investment - capital receipts and borrowing. The report is detailed in respect of both. It states that, based on the existing programme, the medium-term financial plans for the General Fund and Housing Revenue Account show the capital financing budgets (borrowing) increasing into the long term. In respect of Capital Receipts '*the programme approved by Council in February*

2018 set a target for non-earmarked General Fund Capital receipts of £40 million, with a subsequent increase of £1 million to this target in 2019/20, Total receipts against the target in the 5 years up to 31 March 2023 are £13.181 million. It is clear that this is not an acceptable outcome and given the new demand for investment in the schools and non-schools property estate, an enhanced focus is needed on disposal, relinquishment and alternative use to ensure the significant asset base of the Council is affordable and sustainable. This needs to be a clear focus of the updated Annual Property Plan, to also set out the priority detailed investment to be undertaken in the medium term.'

24. Further the report highlights that *'the Council has also incurred expenditure on projects which assume that future capital receipts will be received to repay expenditure incurred on those projects, such as land acquisition at the International Sports Village. Expenditure incurred in advance of realisation of receipts represents a risk of abortive costs, and to the level of borrowing and should be reviewed regularly as part of the overall annual property plan and relevant project governance processes.'*

25. In developing the Capital Programme 2024/25 to 2028/29 (points 84 – 86) the investment programme must have regard to, longer term affordability, materials and supply cost pressures, proportionate business cases prior to inclusion of schemes in the programme, and a review of resources available to pay for capital commitments. A full explanation of the approach recommended to formulating investment priorities can be found at *point 86*.

Financial Resilience

26. Attached to papers at **Appendix 4** is a high-level overview of the financial health of the Council. Members will note that:

- whilst the revenue outturn position for 2022/23 was balanced overall, there were significant overspends in some directorates.
- there was significant capital programme slippage in 2022/23 linked to capacity and supply challenges.

- The percentage of savings achieved has improved in recent years.
- The snapshot highlights the importance of external income to the Council, but also the emphasises the risks it can pose.
- whilst earmarked reserves have increased, latest published comparators show that Cardiff's reserves are comparably low for an authority of this size.

Scope of the Scrutiny

27. This item will give Members the opportunity to consider the Council's approach to developing the 2024/25 budget proposals, and specifically a fuller understanding of the financial resilience work underway to tackle the challenges posed by inflation, demand for services, funding, capital financing and the capital programme.

28. To facilitate the scrutiny, the following witnesses have been invited to attend Committee to answer Members questions:

- Councillor Chris Weaver, Cabinet Member for Finance, Modernisation & Performance;
- Christopher Lee, Corporate Director Resources; and
- Ian Allwood, Head of Financial Services.

Legal Implications

29. The Scrutiny Committee is empowered to enquire, consider, review, and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be

undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

30. The Scrutiny Committee is empowered to enquire, consider, review, and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

RECOMMENDATIONS

31. The Committee is recommended to:

- i. note the Budget 2024/25 and Medium-Term Financial Plan update report;
- ii. consider whether it wishes to relay any comments or observations for consideration by the Cabinet Member for Finance, Modernisation & Performance.

DAVINA FIORE

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6 July 2023